

Form ADV Part 2A: Firm Brochure

December 31, 2012

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Pharmakon Advisors, LP is an investment adviser that is registered with the United States Securities and Exchange Commission (the “SEC”). Registration with the SEC does not imply a certain level of skill or training.

This brochure provides information about the qualifications and business practices of Pharmakon Advisors, LP. If you have any questions about the contents of this brochure, please contact us at (212) 883-2296. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Pharmakon Advisors, LP also is available on the SEC’s website at www.adviserinfo.sec.gov.

Material Changes

This is the first version of our Form ADV Part 2A Brochure.

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1. Advisory Business

- A. Pharmakon Advisors, LP (also referred to as we, the firm and Pharmakon), founded in 2009, is an investment services firm specializing in investment management for its clients, BioPharma Secured Debt Fund, LP, a Delaware limited partnership (“Fund I”), and BioPharma Secured Debt Fund II, S.à.r.l., a Luxembourg société à responsabilité limitée (“Fund II”), and their respective feeder funds. The principal owners of our firm are Pedro Gonzalez de Cosio, Benjamin Schliemann and Pablo Legorreta.
- B. Pharmakon specializes in offering investment management services to its clients. In providing our advisory services to our clients, we focus on acquiring high yielding debt securities with short average lives, which are securitized or collateralized by royalty payments on one or more life sciences products which we believe will have good sales visibility during the expected life of the securities.
- C. Our firm tailors our advisory services to the individual needs and specified investment mandates of our clients. We adhere to the investment strategy set forth in our clients’ Confidential Private Placement Memoranda and investment management agreements.
- D. We do not participate in wrap fee programs.

The amount of client assets that we manage on a discretionary basis, as of December 31, 2012 is approximately \$397,872,169.

We do not manage any client assets on a non-discretionary basis.

2. Fees and Compensation

- A. Our firm, or an affiliate of our firm, receives compensation from our clients in the form of a management fee and performance based compensation, based on the performance of the clients' investments.

Management Fees

In the case of Fund I, we are paid a management fee quarterly in advance. The management fees are calculated at an annual rate, equal to 1% of the funded capital contributions of the investors in the feeder funds up to \$300 million, and 0.5% of the funded capital contributions of investors in excess of \$300 million. Investors with capital commitments of less than \$50 million pay an additional 25 basis points on their funded capital contributions. In the event our management agreement with Fund I is terminated, we are required to refund a pro rata portion of the management fee. The management fee rates described above started declining by 0.25% on January 1, 2011 and will continue to decline by 0.25% on each subsequent anniversary.

In the case of Fund II, we are paid a management fee quarterly in advance. The management fee is comprised of two parts, including a fee based on capital commitments and a fee based on capital contributions. During the investment period, which is set to expire on September 3, 2012, the investment manager is paid both components of the management fee, and following the investment period, the investment manager is paid only the portion of the management fee based on capital contributions. The investment period may be extended for an additional six months with our approval together with the approval of Fund II's board of managers and the affirmative vote of investors in Fund II representing a majority of Fund II's shares. The commitment based fee is 0.25% of aggregate capital commitments of the investors in the feeder funds. The fee based on capital contributions is equal to 1.25% of all unreturned capital contributions by the investors in the feeder funds. Investors with capital commitments of greater than \$100 million are charged a contribution based fee a rate of 0.85%, and investors with a capital commitment of between \$50 million and \$100 million are charged a contribution based fee at a rate of 1%. In the event our management agreement is terminated, we are required to refund a pro rata portion of the management fee to our client.

Performance Compensation

For both of our clients, one of our affiliates receives distributions of 10% of realized gains only after investors receive a return of capital plus a 5% annualized internal rate of return on their unreturned capital contributions, calculated from the date capital contributions were made until the date of return.

Detailed information concerning our compensation and fees is contained in the private placement memorandum of each of our client's feeder funds. Certain

investors in our client funds are entitled to reductions in the percentage of management fees that they are required to bear.

- B. We generally deduct the management fees from clients' accounts quarterly in advance. Performance based compensation is made to an affiliate of our firm concurrently with distributions to our clients' investors.
- C. Each client generally bears its own organizational expenses, investment and trading expenses and accounting and administrative expenses, including, without limitation:
- the management fee;
 - legal, accounting, independent valuation and auditing expenses;
 - printing and mailing costs;
 - research costs and expenses;
 - administrative expenses (including any fee payable to an administrator, if appointed);
 - government fees, taxes (if any);
 - organizational expenses, offering expenses, any registration or filing fees;
 - all investment expenses, including, without limitation, consultant and professional advisory fees incurred in connection with the exploration of investment opportunities, the costs of any liability insurance obtained on behalf of clients, Pharmakon or a manager, member, officer, director, principal, employee or affiliate of Pharmakon or an affiliate of any of the foregoing; and
 - any extraordinary expenses.

The nature of our investment strategy typically does not result in brokerage transactions and associated costs. However, for more information on our policies regarding brokerage transactions and costs, please see Section 9: Brokerage Practices.

- D. Investors in our clients are generally not permitted to withdraw money and therefore they will not pay a management fee in excess of what they owe. In the event that an investor is required to withdraw from a client, such investor will receive a pro rated refund of previously paid management fees.
- E. Neither our firm nor any of our principals or employees receives any transaction-based compensation for the sale of securities or other investment products.

3. Performance-Based Fees and Side-By-Side Management

Pharmakon (or one of our affiliates) receives performance-based compensation from each of its clients. We do not manage any funds or accounts that do not pay a performance-based fee. As a result, we and our affiliates do not face certain conflicts of interest that may arise when an investment adviser accepts performance-based fees or compensation from some clients, but not from other clients.

4. Types of Clients

All of our clients are pooled investment vehicles. Interests in our clients are offered and sold exclusively to investors satisfying the applicable eligibility and suitability requirements in order to comply with applicable federal securities laws and regulations. Typically, these investors are high net worth individuals, trusts, estates, corporate and public pension and profit sharing plans, endowments, charitable organizations, funds of funds, family offices, institutions and other entities.

To ensure that each potential investor meets the applicable qualification discussed above, each investor in one of our funds must complete and execute written subscription documents before we can consider its subscription.

This firm brochure is not an offer to invest in our funds.

5. Method of Analysis, Investment Strategies and Risk of Loss

A. Investment Strategies

On behalf of its clients, Pharmakon seeks to make investments that provide current income and/or capital appreciation, primarily in loans, notes, bonds or other debt securities or instruments, which are purchased on the secondary market or directly from the issuer. Such debt securities or instruments generally are expected to be secured or collateralized by royalty collateral derived from sales of one or more life sciences products. We may also cause our clients to invest in priority tranches of royalty revenues of life sciences products, where royalty revenue participation is subject to a capped preference and is secured or collateralized by the royalty collateral.

Our clients invest in securities that pay interest on a floating or fixed basis as well as securities that pay no cash interest during certain periods (pay-in-kind securities) and securities that may pay additional coupons or premiums depending on the actual sales of a particular life sciences product. Such investments may include debt instruments that are listed and unlisted, public and private, rated and unrated, as well as other obligations, including structured debt, convertible debt and financial derivatives. Investments may take place in the primary or secondary markets or through direct, principal to principal transactions with issuers.

Methods of Analysis

Our Investment Process. We believe that our extensive, focused industry knowledge and contacts enable us to identify, source, analyze and structure attractive investment opportunities for our clients. We select portfolio investments based upon an in-depth, rigorous analysis of the royalty generating life sciences products underlying the royalty collateral and the structure of our clients' investments.

Royalty Collateral. We employ a disciplined evaluation process of the royalty collateral underlying each potential investment. A key component of this process is to examine future product sales potential. In making such an evaluation, we give particular consideration to:

- the risk of new or existing competitive products, including generics, through the expected maturity of the securities;
- quality and strength of the related patent estate;
- strength of the marketing and sales organization of the company that markets the product, as well as that company's financial strength;
- relevance of the product in terms of revenue contribution to the marketing and sales organization;
- seriousness of the condition or disease that the product targets;

- pricing of the product and any competing products;
- qualification for reimbursements by insurers and Medicaid/Medicare; and
- track record of safety, physician adoption and sales history.

We use relationships with scientific experts and leading physicians to assist in its evaluation of products. Physician studies (i.e., market research) may also be commissioned to ascertain safety, familiarity, usage, and acceptance of products by practicing doctors. We may also retain outside counsel to evaluate the intellectual property rights and patent estate of the royalty collateral. We may rely on the research and analysis performed by third parties, including existing opinions by outside patent counsel and third-party market research, to make investment decisions related to investments available for sale in the secondary market.

Structure of Investments. In conjunction with the analysis of a product's sales potential, we analyze the structure of the investment itself. Each potential investment's structure will be rigorously reviewed with particular consideration of:

- the investment's expected yield and duration;
- strength and enforceability of collateral agreements;
- coverage ratios measured as the commercial value of the license to the amount of debt outstanding;
- priority of payments;
- any embedded calls, puts or revenue sharing agreements; and
- cash flow projections and their impact on expected maturity and duration.

Royalty receivables are calculated as a percentage of product sales. Our practice in purchasing royalty interests is to complete a thorough assessment of the products that will generate the royalty receivables. In this regard, we analyze clinical data, consult leading clinicians utilizing the product, evaluate the strength of the product's marketers and identify current and pipeline competition. We use this assessment, as well as other relevant information, to evaluate the sales potential of the product and calculate the present value and future value of the product's royalty stream.

- B. Despite our investment approach and methodology, investing in any securities involves a risk of loss that any of our clients or any of the investors in our clients must be prepared to bear.

Certain risks associated with an investment in any of our clients include:

RISKS RELATED TO INVESTMENTS IN DEBT AND EQUITY

- *Lender Liability Considerations and Equitable Subordination.* In recent years, a number of judicial decisions in the United States have upheld the right of borrowers to sue lending institutions on the basis of various evolving legal theories (collectively termed “lender liability”). Generally, lender liability is founded upon the premise that an institutional lender has violated a duty (whether implied or contractual) of good faith and fair dealing owed to the borrower or has assumed a degree of control over the borrower resulting in a creation of a fiduciary duty owed to the borrower or its other creditors or shareholders. Because of the nature of certain of our clients’ investments, our clients could be subject to allegations of lender liability.

In addition, under common law principles that in some cases form the basis for lender liability claims, if a lending institution (a) intentionally takes an action that results in the undercapitalization of a borrower to the detriment of other creditors of such borrower, (b) engages in other inequitable conduct to the detriment of such other creditors, (c) engages in fraud with respect to, or makes misrepresentations to, such other creditors or (d) uses its influence as a stockholder to dominate or control a borrower to the detriment of other creditors of such borrower, a court may elect to subordinate the claim of the offending lending institution to the claims of the disadvantaged creditor or creditors, a remedy called “equitable subordination”. Because of the nature of certain of our clients’ investments, our clients could be subject to claims from creditors of an obligor that a client’s investments issued by such obligor that are held by such client should be equitably subordinated. A significant number of our clients’ investments will involve investments in which the client would not be the lead creditor. It is, accordingly, possible that lender liability or equitable subordination claims affecting our clients’ investments could arise without the direct involvement of a client.

- *Investments in Debt Obligations Are Subject to Credit and Interest Rate Risks.* Debt instruments are subject to credit and interest rate risks. “Credit risk” refers to the likelihood that an issuer will default in the payment of principal and/or interest on an instrument. Financial strength and solvency of an issuer are the primary factors influencing credit risk. In addition, lack or inadequacy of collateral or credit enhancement for a debt instrument may affect its credit risk. Credit risk may change over the life of an instrument, and debt obligations, which are rated by rating agencies, are often reviewed and may be subject to downgrade. “Interest rate risk” refers to the risks associated with market changes in interest rates. Interest rate changes may affect the value of a debt instrument indirectly (especially in the case of fixed rate debt securities) and directly (especially in the case of debt instruments whose rates are adjustable). In general, rising interest rates will negatively impact the price of a fixed rate debt instrument and falling interest rates will have a positive effect on price. Adjustable rate instruments also react to interest rate changes in a similar manner although generally to a lesser degree

(depending, however, on the characteristics of the reset terms, including the index chosen, frequency of reset and reset caps or floors, among other factors). Interest rate sensitivity is generally more pronounced and less predictable in instruments with uncertain payment or prepayment schedules. In addition, interest rate increases generally will increase the interest carrying costs of borrowed securities and leveraged investments.

- *Difficulty in Valuing Investments and Distributions of Assets Other Than Cash.* Generally, there will be no readily available market for a substantial number of our clients' investments and hence, most of our clients' investments will be difficult to value. Certain investments may be distributed in kind to investors in our clients. An investor that receives assets other than cash from a client may incur costs and delays in converting those assets to cash. Any such distribution could also put downward pressure on the price of such securities.

RISKS RELATING TO PRODUCTS

- *We may have Limited Information About the Products.* We may have limited information relating to the life sciences products that form the collateral security payment of the instruments that our clients invest in and limited information about other persons with an interest in the life sciences products. Therefore, there may be information that relates to the life sciences products or such persons that a prospective investor would like to know that we are not able to provide. For example, we may not know the results of studies conducted by marketers of the life sciences products or others or the nature or amount of any complaints from doctors or users of such life sciences products about which such persons may have knowledge.
- *The Products are Subject to Intense Competition.* The biopharmaceutical and pharmaceutical industries are highly competitive and rapidly evolving. The length of any product's commercial life, including that of any of the life sciences products, cannot be predicted. There can be no assurance that the life sciences products will not be rendered obsolete or non-competitive by new products or improvements made to existing products, either by the current marketer of the life sciences products or by another marketer. Adverse competition, obsolescence or governmental and regulatory healthcare policy changes could significantly impact royalty revenues of life sciences products which serve as the collateral or other security for the repayment of obligations outstanding under our clients' investments.

Competitive factors affecting the market position and success of the life sciences products include:

- effectiveness;
- side effect profile;

- price, including third-party insurance reimbursement policies;
- timing and introduction of the product;
- effectiveness of marketing strategy;
- governmental regulation;
- introduction of generic competition;
- new and improved medical procedures; and
- product liability claims.

If a life sciences products is rendered obsolete or non-competitive by new products or improvements on existing products or governmental or regulatory action, such developments could have a material adverse effect on the ability of the issuer of an investment to make payments of interest and principal on the investment, and consequently could adversely affect our clients' performance. If additional side effects or complications are discovered with respect to a life sciences products, and such life sciences product's market acceptance is impacted or it is withdrawn from the market, continuing payments of interest on, and repayment of the principal of, our clients' investments may not be made on time or at all.

It is possible that over time side effects or complications from one or more of the life sciences products could be discovered, and, if such a side effect or complication posed a serious safety concern, a life sciences products could be withdrawn from the market, which could adversely affect the ability of issuers of indebtedness to make continuing payments of interest on, and repayment of the principal of, our clients' investments, in which case our clients' ability to make distributions to investors may be materially and adversely affected.

Additionally, even if an additional side effect or complication is discovered that does not pose a serious safety concern, it could nevertheless negatively impact market acceptance and therefore result in decreased net sales of one or more of the life sciences products. This could adversely affect the ability of issuers of indebtedness to make continuing payments of interest on, and repayment of the principal of, our clients' investments, in which case the ability to make distributions to investors may be materially and adversely affected.

- *Sales of the Products are Subject to Regulatory Actions that Could Harm the Fund's Ability to make Distributions to Investors.* All of the life sciences products have been approved for at least one indication by the regulatory authorities of the relevant countries where the royalty collateral is originated. There can be no assurance, however, that any of these regulatory approvals will not be revoked or restricted in a manner that would have a material adverse effect on the sales of such life sciences products and on the ability of issuers of indebtedness to make continuing payments of interest on, and repayment of the principal of, our clients' investments, in which case the ability to make distributions to investors may be materially and adversely affected.
- *The Products are Subject to Governmental Healthcare Policy Changes and Managed Care Considerations, Which Could Affect Their Pricing.* The healthcare industry is likely to continue to change as the public, government, medical practitioners, and the pharmaceutical and biopharmaceutical industries focus on ways to expand medical coverage while controlling the growth in healthcare costs. In the United States, comprehensive legislative changes have been proposed from time to time, which, if enacted, could reduce the prices charged for pharmaceutical and biopharmaceutical products. In addition, the growth of large managed care organizations and prescription benefit managers as well as the prevalence of generic substitution has hindered price increases for prescription drugs. These conditions may have a material adverse effect on the Fund. In Europe, following approval by European Agency for the Evaluation of Medicinal Products (EMA) the pricing of a new pharmaceutical or biopharmaceutical product is negotiated on a country-by-country basis with each national regulatory agency. In addition, each European country has an approved formula for which it reimburses the cost of prescription drugs. The failure of any of the life sciences products to be added to the formula, or to achieve satisfactory pricing, could have a material adverse effect on our clients' investments.
- *Product Liability Claims may Diminish Returns.* The manufacturers, developers or marketers of the life sciences products could become subject to product liability claims. A successful product liability claim could adversely affect the amount of royalty payment, and consequently, could adversely affect the ability of an entity in which a client invests to make payments of interest or principal. Although we do not believe that our clients will bear responsibility in the event of a product liability claim against the company manufacturing, marketing and selling the underlying life sciences products, there can be no assurance that such claims would not materially and adversely affect the clients' investments.
- *Sales Risk.* Sales from life sciences products may be lower than their historical levels or lower than the amounts projected due to pricing pressures, insufficient demand, product competition, lack of market acceptance, obsolescence, safety or efficacy issues, loss of patent protection or other factors.

- *Independent Licensees.* In the case of priority royalty tranches, revenue received by our clients consists mostly of royalties paid by licensees of intellectual property who develop, market and manufacture the products based on the intellectual property. In the case of bonds or other securities collateralized by pharmaceutical royalties, revenue received by our clients consists mostly of payments supported by royalties paid by the licensees. These licensees are not owned by or affiliated with our clients, us, or our principals and some of these licensees may have interests that are different from our clients' interests. These licensees may be motivated to maximize income by allocating resources to other products and, in the future, may decide to focus less attention on the life sciences products. There can be no assurance that each of these parties has adequate resources and motivation to continue to produce, market and sell the life sciences products. Aside from any limited audit rights relating to the activities of the licensees that our clients may have in certain circumstances, neither our clients, us, nor our principals has oversight rights with respect to the licensees' operations. Our clients also has limited information on the licensees' operations. While our clients may be able to receive certain information relating to sales of life sciences products through the exercise of the audit rights and review of royalty reports, our clients will not have the right to review or receive certain information relating to life sciences products, including the results of any studies conducted by the licensees or others or complaints from doctors or users of life sciences products, that the licensees may have. The market performance of the life sciences products, therefore, may be diminished by any number of factors relating to the licensees that are beyond our control.
- *Generic Substitutes.* Although the life sciences products are based upon patents and/or patent applications with exclusive rights, a regulatory authority may authorize marketing by a third party for a generic substitute for a life sciences products, in which case the life sciences products would become subject to competition from such generic substitute. The absence of marketing expenses generally permits generic substitutes to be sold at significantly lower prices than branded products. Governmental and other pressures to reduce pharmaceutical costs, including from third-party payers such as health-maintenance organizations and health insurers, could result in physicians or pharmacies increasingly using generic substitutes for the life sciences products.
- *Manufacturing and Supply Risk.* Pharmaceutical products, and in particular biopharmaceutical products, are manufactured in specialized facilities that require the approval of, and ongoing regulation by, the FDA in the United States and, if manufactured outside of the United States, foreign regulatory agencies. With respect to the life sciences products, to the extent operational standards set by such agencies are not adhered to, manufacturing facilities may be closed or the production of such life sciences products interrupted until such time as any deficiencies noted by such agencies are remedied. Any such closure or interruption may interrupt, for an indefinite period of time, the manufacture and distribution of a life sciences products.

In addition, manufacturers of such life sciences products may rely on third parties for packaging of the life sciences products or to supply bulk raw material used in the manufacture of the life sciences products. In the United States, the FDA requires that all suppliers of pharmaceutical bulk materials and all manufacturers of pharmaceuticals for sale in or from the United States achieve and maintain compliance with the FDA's current "Good Manufacturing Practice", or "GMP", regulations and guidelines.

Licensees generally rely on a small number of key, highly specialized suppliers, manufacturers and packagers. Any interruptions, however minimal, in the operation of these manufacturing and packaging facilities could have a material adverse effect on product sales.

RISKS RELATING TO THE LICENSE AGREEMENTS UNDERLYING THE PRODUCTS

- *The Marketers of the Products are, Generally, Entirely Responsible for the Ongoing Regulatory Approval, Commercialization, Manufacturing and Marketing of the Products.* Generally, the holders of royalties on the life sciences products have granted exclusive regulatory approval, commercialization, manufacturing and marketing rights to the marketers of the life sciences products. The marketers have full control over those efforts and sole discretion to determine the extent and priority of the resources it will commit to its program for a life sciences product. Accordingly, the successful commercialization of the life sciences products depends on the marketer's efforts and is beyond our control. If a marketer does not devote adequate resources to the ongoing regulatory approval, commercialization and manufacture of a life sciences product for any reason, the product's sales may not generate sufficient royalties for our clients to be paid interest and principal in respect of its investments, and consequently, of our clients to make adequate distributions to their investors.

- *License Agreements Relating to the Products may, in Some Instances, be Unilaterally Terminated.* Certain license agreements relating to the life sciences products may be terminated, which may adversely affect sales of such life sciences products. For example, under certain license agreements, marketers retain the right to unilaterally terminate the agreements with the licensors. When the last patent covering a life sciences product expires or is otherwise invalidated in a country, a marketer may be economically motivated to terminate its license agreement, either in whole or with respect to such country, in order to terminate its relevant obligations. In the event of such a termination, a licensor may be unable to secure all of the necessary resources to continue developing and commercializing a life sciences product in the countries as to which the license agreement has been terminated.

In addition, license agreements may fail to provide significant protection for failure to perform or in the event of disputes.

If a marketer were to default on its obligations under a license agreement, the licensor's remedy may be limited to either terminating certain licenses related to certain countries or to generally terminate the license agreement with respect to such country. In addition, if a marketer were to initiate or become subject to a bankruptcy proceeding, royalty payments relating to the applicable life science product may be delayed during the pendency of such a proceeding, and may ultimately not be made in full or at all.

- *An Insolvency of a Marketer Could Adversely Affect the Rights of the Entities in which our Clients Invest to Receive Royalty Payments.* If a marketer were to become insolvent and seek to reorganize under Chapter II of Title II of the U.S. Code, as amended (the "Bankruptcy Code"), or liquidate under Chapter 7 of the Bankruptcy Code, such event could delay the payment of the amounts due under a license agreement, pending a resolution of the insolvency proceeding. Any unpaid royalty payments due for the period prior to the filing of the bankruptcy proceeding would be unsecured claims against the marketer. While royalty payments due for periods after the filing may qualify as administrative expenses entitled to a higher priority, the actual payment of such post-filing royalty payments could be delayed for a substantial period of time and might not be in the full amount due under the license agreement. The licensor would be prevented by the automatic stay from taking any action to enforce their rights without the permission of the bankruptcy court. In addition, the marketer could elect to reject the license agreement, which would require the licensor to undertake a new effort to market the applicable life sciences product with another distributor. Such proceedings could adversely affect the ability of an issuer of debt obligations in which a client invests to make payments of interest or principal on its debt obligations, and could consequently adversely affect a client.

INTELLECTUAL PROPERTY RISKS

- *Our Clients Depend on Third Parties to Maintain, Enforce and Defend Patent Rights on the Life Sciences Products.* The right to receive royalty payments generally depends on the existence of valid and enforceable claims of registered and/or issued patents in the United States and elsewhere throughout the world. The life sciences products on which our clients receive payments are dependent on patent protection for the life sciences products and on the fact that the manufacturing, marketing and selling of such products does not infringe intellectual property rights of third parties. In many cases, we have no ability to control the prosecution, maintenance, enforcement or defense of patent rights, but must rely on the willingness and ability of the entities in which it invests to do so. In these cases, we believe that the parties required or entitled to maintain, enforce and defend the underlying patent rights are in the best position and have the requisite business and financial motivation to do so, there can be no assurance that these third parties will vigorously maintain, enforce or defend such rights. Even if such third parties seek to maintain, enforce or defend such rights, they may not be successful. In other cases, our clients have the right to control and require enforcement and defense of underlying patent rights. In either case, any failure to successfully maintain,

enforce or defend such rights would have a material adverse effect on the ability of an issuer of debt obligations in which our clients invest to make payments of interest and principal on its debt obligations, and could consequently adversely affect our clients' investment performance.

- *Infringement of Third-Party Patents.* The commercial success of the life sciences products depends, in part, on avoiding infringement of the proprietary technologies of others. Patents issued to third parties or patent applications claiming subject matter necessary to manufacture and market the life sciences products could exist. Such third-party patents or patent applications may include claims directed to the mechanism of action of the life sciences products. There can be no assurance that a license would be available to licensees for such subject matter if such infringement were to exist or, if offered, would be offered on reasonable and/or commercially feasible terms. Without such a license, it may be possible for third parties to assert infringement or other intellectual property claims against the licensees based on such patents or other intellectual property rights. An adverse outcome in infringement proceedings could subject the licensees to significant liabilities to third parties, require disputed rights to be licensed from third parties or require the licensees to cease or modify their manufacturing, marketing and distribution of the life sciences products.

- *Trade Secrets.* Our clients' rights to receive payments in respect of royalties depends, in part, on trade secrets, know-how and technology, which are not protected by patents, to maintain the licensees' competitive position. This information is typically protected through confidentiality agreements with parties that have access to such information, such as collaborative partners, licensors, employees and consultants. Any of these parties may breach the agreements and disclose the confidential information or competitors might learn of the information in some other way.

- *Finite Terms.* The rights to receive the payments in respect of royalties have limited terms that are generally not subject to extension. Following the expiration of the patent, or the termination of the license or the contractual right to receive payments under any agreement pursuant to which our clients have the right to receive payments in respect of royalties, our clients will not receive any revenue related to the sale of the related life sciences product even if the life sciences product continues to be sold.

C. We primarily recommend and provide investment management service with respect to high yielding debt securities with short average lives, which are securitized or collateralized by royalty payments on one or more life sciences products. We encourage our investors to consider all of the risk factors we have explained, as any investment bears the risk of a total loss of investment and investors must be prepared to assume any potential loss.

6. Disciplinary Information

There have been no legal or disciplinary events involving Pharmakon or any of our principals or executive officers that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management.

7. Other Financial Industry Activities and Affiliates

Neither our firm nor any of our directors, officers or principals is registered, or has an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.

Neither our firm nor any of our directors, officers or principals is registered, or has an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or is an associated person of any of the above.

We do not have any related person who is:

- A broker-dealer, municipal securities dealer or governmental securities dealer or broker;
- A futures commissions merchant, commodity pool operator or commodity trading adviser;
- A banking or thrift institution;
- An accountant or accounting firm;
- A lawyer or law firm;
- An insurance company or agency;
- A pension consultant; or
- A real estate broker or dealer.

We do not recommend or select unaffiliated investment advisers for our clients, receive compensation directly or indirectly from unaffiliated advisers that create a material conflict of interest, or have other business relationships with them that create a material conflict of interest.

Relationships with Pooled Investment Vehicles

We or one of our affiliates manages each of our clients and its respective feeder funds either as the general partner and/or investment manager.

Although in the case of Fund I, the entity that serves as general partner to Fund I and its respective feeder funds is managed by an independent board of directors, and Fund II is controlled by an independent board of managers, none of the compensation, liquidity or other terms of our client funds were negotiated at arm's-length. However, we disclose to prospective investors the terms of all of our fees and performance-based compensation, as well as the other terms of an investment, in detail in the Private Placement Memorandum relating to each client fund.

Our principals manage and expect to continue to manage their own proprietary accounts and other investment and trading accounts with objectives similar in whole or in part to those of our clients.

We are required to act in a manner that we consider fair, reasonable and equitable in allocating investment opportunities among our clients, but there are no specific obligations or requirements concerning the allocation of time, effort or investment opportunities to any particular client or any restrictions on the nature or timing of investments for the account of our clients and our principals' own accounts or for other accounts which we or our principals may manage.

We and our principals currently and from time to time in the future, directly or indirectly, provide investment management services on behalf of other pooled investment vehicles, funds, accounts and clients. We are not restricted from entering into other investment advisory or management relationships, or from engaging in other business activities with other clients, even though such activities may involve substantial time and resources. Such activities may involve similar or different investment objectives, philosophy or strategies as those of our clients and could be viewed as creating a conflict of interest in that our time and effort will not be devoted exclusively to the business of any particular client.

We may manage multiple clients that may hold positions in, or enter into transactions with, entities in which another of our clients invests and several clients may have divergent interests from others. In addition, conflicts may arise due to the fact that different clients may enter into such transactions or invest in different levels of the capital structure of such entities.

We may determine that an investment opportunity is appropriate for a particular client, or for itself, but not for another client. Situations may arise in which investment funds managed by us have made investments that would have been suitable for investment by another client, but, for various reasons, were not pursued by, or available to, such client. To the extent we, our principals or one of our clients invests in a particular investment, the ability of another client to invest in the same investment may be adversely affected by any limitation on availability of the investment. In addition, we may be required to choose between our clients with respect to a particular investment.

Each client may have divergent interests with respect to strategies in acquiring or exiting from certain investments. Conflicts may arise due to the fact that multiple clients may invest in different levels of the capital structure of, or otherwise in different securities or other instruments issued by or related to the same issuer. Investments by multiple clients may cause us to become subject to legal or contractual restrictions on our ability to effect transactions for a particular client, for example due to the receipt of non-public information or due to the existence of a control relationship between us and an issuer of a security in which we have invested on behalf of another client. We will act in a manner that we consider fair, reasonable and equitable in allocating investment opportunities among our clients, taking into consideration available capital, diversification considerations, any other anticipated opportunities and other relevant factors.

Relationship with Investment Adviser

We are affiliated with RP Management, LLC because one of our principals, Pablo Legorreta, is the sole principal of RP Management, LLC. This relationship is not material to our advisory business and we believe it does not create any material conflict of interest with our clients.

8. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

- A. As of the effective date of our registration as an investment adviser, we have adopted a Code of Ethics in accordance with the U.S. Securities and Exchange Commission requirements. This Code of Ethics is designed to ensure, among other things, that employees conduct their investing activities in accordance with applicable law and in a manner where clients' interests are placed first and foremost. All employees are responsible for upholding our firm's fundamental principles of openness, integrity, honesty and trust. The Code of Ethics focuses on specific areas where employee conduct has the potential to affect clients' or investors' interests adversely.

An employee must submit an Initial Disclosure Report to our firm's Compliance Department, for the review of the Chief Compliance Officer, or his designee, within 10 days after the start of his or her employment. The Initial Disclosure Report includes all covered accounts such as (1) any personal account of an employee or such employee's related persons; (2) any joint or tenancy in common account in which either the employee or his or her related person has an interest or is a participant; (3) any account for which either the employee or his or her related person acts as trustee, executor, or custodian; (4) any account over which either the employee or his or her related person has power of attorney; and (5) any corporate or investment club accounts in which either the employee or his or her related person has investment discretion or otherwise participates in the investment decision-making process relating to such account. In addition, employees must report any new covered account to the Chief Compliance Officer within 10 days of opening such account on our Add Brokerage Account form. Any changes to a covered account, including account number, name, whether the account is closed, etc. should be reported within 10 days of such change.

Employees must provide our firm with all necessary information to arrange for their broker-dealer, bank or other third-party financial institution to send periodic account statements for each covered account directly to the Chief Compliance Officer.

Our Code of Ethics applies to all of our employees and each of our employee's related persons, which include (i) the employee's spouse, (ii) members of the employee's immediate family living in the same household, including children and/or stepchildren and (iii) other relatives of the employee living in same household who are supported financially by the employee, whose investment holdings and accounts the employee exercises direct or indirect influence or control or from whose investment holdings and accounts the employee derives a financial benefit.

Employees must obtain prior written approval before either they or a related person places an order to sell or otherwise dispose of a security that is being offered as part of an initial public offering or investing in a private placement. Prior to placing an

order for such a securities transaction, a pre-trade request via email must be sent. The submitted request will be reviewed and, as soon as practicable, a determination will be made as to whether the proposed securities transaction(s) can be authorized. If the securities transaction(s) is denied, no explanation will be provided.

Violation of our Code of Ethics provides for a range of sanctions, both legal and those that our firm may impose as we deem appropriate, should anyone violate the Code of Ethics. Such sanctions include, but are not limited to, disgorgement of profits (if any), and depending upon the facts or circumstances, more severe actions up to and including monetary fines and termination of employment.

In addition to the policies described above, the Code of Ethics is comprised of several other policies and procedures that are designed to eliminate or reduce potential conflicts of interest, including prohibitions against market manipulation or front running. Pharmakon prohibits the misuse of material non-public information (“inside information”) and maintains a Restricted List of securities that may not be purchased or sold by its employees for their own accounts or for client accounts because of the actual or possible possession of inside information. Pharmakon also has a gifts & entertainment policy which covers the acceptance of gifts or entertainment from service providers and other parties.

Each employee must annually execute a statement to the effect that he has read and understands, has complied with and will continue to comply with, the procedures set forth in this Code of Ethics.

The paragraphs above only represent a summary of key provisions in our Code of Ethics. We provide a copy of our Code of Ethics to any client or any investor in our clients that requests one.

- B. Employees of our firm do not recommend to clients, nor do they buy or sell for client accounts, securities in which they have a material financial interest. Our firm, its employees, officers, partners, directors (and any persons performing similar functions), and persons directly or indirectly controlling our firm, controlled by our firm or under common control with our firm, may not engage in a principal transaction with the firm’s clients, unless such transactions have been approved as required by law.
- C. Principals and employees of our firm are not permitted to invest in the same securities that principals and employees recommend to clients.
- D. Principals and employees of our firm do not recommend securities to clients, or buy or sell securities for client accounts, at the same time that they buy or sell the same securities for their own (or a related person's own) account.

9. Brokerage Practices

Because of the nature of our investment strategy, and because most of our investments are made on a negotiated basis, we typically are not involved in securities trade executions on public markets and do not anticipate being involved in trade executions on public markets in the future. To the extent that we ever arrange for execution of securities trades on behalf of our clients, we will strive to obtain best overall execution of securities trades for our clients based on the circumstances of each transaction we place. The following description of our policies contemplates that we may arrange for execution of securities trades on public markets for our clients in the future, although there is currently no intention to do so.

In selecting broker or dealers and determining the reasonableness of their commissions for our clients' transactions, we will take into account the following factors:

- the broker-dealer's ability to execute difficult trades
- commitment of capital,
- access to new issues,
- nature and frequency of sales coverage,
- breadth of services provided,
- operational capabilities,
- back office and processing capabilities,
- financial stability and responsibility,
- reputation, access to markets,
- confidentiality,
- commission rates,
- responsiveness, and
- the value of research products and services provided by such brokers.

Recognizing the values of these factors, in the event that we arrange for execution of securities trades for our clients, our clients may pay a brokerage commission in excess of that which another broker might have charged for effecting the same transaction.

We will periodically review brokerage commissions to ensure that they remain reasonable. Using brokers' commissions as a guideline, we will make a good faith determination that the amount of commission paid over time is reasonable based on the totality of the circumstances and in relation to the value of the research received, viewed in terms of either the specific transaction or our overall responsibility to our clients.

To the extent that we arrange execution of securities trades on public markets for our clients, we will establish a committee, which meets on a periodic basis, to oversee and monitor compliance with this policy. The committee's review will

include trading volumes, commissions paid, gifts and entertainment, as well as trade errors, among other things. Members of the committee will include our Chief Compliance Officer and a representative from our investment staff and operations department.

We will maintain an approved executing broker list. Generally, all client trades will be required to be placed through a firm-approved broker, unless otherwise approved by the Chief Compliance Officer. All requests to add a new broker to the executing broker list are subject to approval by the Chief Compliance Officer. A broker request form must be completed and the required documentation must be provided for review prior to approval. The Chief Compliance Officer also monitors commissions paid for executed trades that are outside of the established commission schedule range, if any. Additionally, on a monthly basis the Chief Compliance Officer will review a report of the brokers to whom commissions were paid, to determine whether an unusual amount of commissions was paid to a broker that is not considered a top tier broker by the firm. The Chief Compliance Officer is responsible for the reviews and will escalate any issues to the Executive Committee. Additionally, the compliance department reviews on a monthly basis the FINRA disciplinary activities to determine if any approved broker is subject to a material violation.

We may buy and sell securities for our clients from brokers with whom our clients' assets are custodied.

1. We May Utilize Research and Other Soft Dollar Benefits. Soft dollar benefits include research and related services furnished by brokers including written information and analyses (including specific market, financial and economic studies and forecasts), statistics and pricing services, third party research, trade execution services, discussions with research personnel and similar services used in the investment and trading process. We may pay a broker a commission in excess of that which another broker might have charged for effecting the same transaction, in recognition of the value of the brokerage or research services, or other services or facilities provided by the broker. To the extent we enter into soft dollar transactions, we will effect such transactions in compliance with the safe harbor provided by Section 28(e) of the U.S. Securities Exchange Act of 1934, as amended. Since commission rates in the U.S. as well as in certain other jurisdictions are negotiable, selecting brokers on the basis of considerations that are not limited to applicable commission rates may at times result in higher transaction costs than would otherwise be obtainable.

The Use of Soft Dollars Can Create a Conflict of Interest. Using client transactions to obtain research and other benefits creates incentives that result in conflicts of interest between advisers and their clients. The availability of these benefits may influence us to select one broker-dealer rather than another to perform services for clients, based on our interest in receiving the products and services instead of on our clients' interest in receiving the best execution prices. Obtaining these benefits may cause our clients to pay higher fees than those

charged by other broker-dealers. However, we will make a good faith determination that the amount of commission is reasonable in relation to the value of the research and other soft dollar benefits received, viewed in terms of either the specific transaction or our overall responsibility to its clients. We will regularly evaluate the placement of brokerage and the reasonableness of commissions paid as described above.

The use of soft dollars to obtain research services and to pay for other costs and other investment expenses that our firm might otherwise incur (such as third party research and investment information, trade execution services, research and financial newsletters) creates a conflict of interest between our firm and our clients because our clients pay for products and services that are not exclusively for their benefit and that may be primarily or exclusively for the benefit of our firm. To the extent that we are able to acquire these products and services without expending our own resources, our use of soft dollar benefits tends to increase our profitability.

2. Our Clients Do Not Direct Brokerage. Our firm does not recommend, request or require that a client, nor do we permit a client to, direct us to execute transactions through a specified broker-dealer.

10. Review of Accounts

- A. Our portfolio manager reviews all the client fund portfolios for which they are responsible and analyze their performance on a regular basis, no less than bi-weekly for the private equity clients. Where applicable, these reviews include an assessment of daily profit and loss reports with respect to our clients' investment positions.
- B. The portfolio manager will meet with the our principal owners at least monthly or more frequently, as deemed necessary, and will meet upon the occurrence of certain significant events. A "significant event" is generally an event that will materially affect the value of a security for a period of time.
- C. We provide investors in our client funds with unaudited quarterly reports. Additionally, we provide audited annual reports containing financial statements examined by our independent auditors as well as such tax information as is necessary for each investor in our funds to complete its U.S. federal and state income tax or information returns, along with any other tax information required by law.

11. Client Referrals and Other Compensation

- A. Our firm does not, nor do any principals or employees of our firm, receive any economic benefit from non-clients for providing advisory services to our clients.
- B. Pharmakon engages consultants to arrange introductions with potential investors who may be interested in investing in our client funds. If we accept investors who are introduced to us by such consultants, we will pay the consultant a fee, which will be a percentage of the management fees and performance based fees that we will receive from the introduced investor. The percentage to which the consultants are entitled vary based upon the size of the investor's commitment to our client fund.

12. Custody

Due to our access to client funds and securities as general partner or investment manager of our client funds that we manage, and our authority to deduct fees and other expenses from a client's account, we are deemed to have custody of our clients' funds and securities within the meaning of Rule 206(4)-2 of the Investment Advisers Act of 1940, as amended.

All of our clients are pooled investment vehicles. Accordingly, we comply with the periodic reporting requirements of the Custody Rule by arranging for annual financial statements for clients accounts, which are prepared in accordance with generally accepted accounting principles and are audited by an independent auditor that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board, to be delivered to each investor in our clients' feeder funds within 120 days of the end of the fiscal year of the fund.

13. Investment Discretion

Scope of Authority

All of our firm's investment advisory services involve the management of client accounts on a fully discretionary basis. We have the authority to determine, without obtaining specific client consent, which investments to acquire on behalf of our clients. In exercising this authority, we adhere to the investment strategy and program set forth in the private placement memorandum of each Pharmakon fund.

Procedures for Assuming Authority

Before accepting investors' subscriptions for interests, we provide all investors in our clients with a private placement memorandum and governing documents that set forth, in detail, our investment strategy and program and the terms of investment for investors. By completing our subscription documents to acquire an interest in one of our funds, investors give us complete authority to manage their investments in our clients in accordance with the private placement memorandum and governing documents they each received.

14. Voting Client Securities

A. Proxy Voting Policies and Procedures

Our client funds' portfolios typically do not contain voting securities, and thus we are not typically called upon to vote a client's securities. We have adopted the following policies and procedures in the event our client funds' securities portfolios contain voting securities in the future. Our investment professionals, in consultation with the Chief Compliance Officer, will be responsible for voting proxies, either in writing or via the internet, for such clients. When voting client proxies, our firm is required to vote such proxies in the best interest of its clients. However, we may abstain from proxy votes when, in our reasonable opinion, the outcome of the vote has been decided (regardless of how we may vote) or when the subject of the vote is immaterial to the investment or interest of our clients. The firm will be responsible for maintaining records of the manner in which each proxy was voted.

Our accounting department is responsible for monitoring corporate actions and receiving, processing and voting proxies. Our investment professionals and the Chief Compliance Officer will set the voting policy, and will review on a periodic basis new corporate governance issues as they arise and determine how our firm will respond to such issues. They also will take steps to ensure that those who assist in the administration of the voting of proxies perform their responsibilities consistent with these voting policies.

Proxies will be voted (i) on computerized proxy cards, where such cards are used by the security issuer, (ii) by returning the proxy voting card via mail per instructions provided by the security issuer, (iii) via e-mail or fax, or (iv) via the internet, in accordance with the specific procedures of such vote.

Factors We Consider When Determining Whether to Vote Proxies

Our investment professionals consider the following factors, and any other factors he or she determines is relevant, when determining whether to vote a client proxy:

- The holding period of a security's position.
- The economic value of a security's position.
- Whether the cost of voting (e.g., required in-person voting at a distant location) will likely exceed the value of any potential benefits of voting.
- Whether voting is impracticable due to timing or mechanics.
- Whether our custodian lent the securities and had not recalled them as of the relevant voting date.

- Whether the relevant client has specified in writing (e.g., an agreement with us) that it will maintain the authority to vote proxies or that it has delegated the right to a third party.

When an investment professional determines that voting a proxy is in a client's best interest, he or she uses all relevant factors and information at his or her disposal to determine how to vote in a client's best interest.

Our investment professionals do not vote securities that our account custodian has loaned to a third party.

Clients cannot direct our portfolio managers' proxy votes.

Potential Conflicts of Interest

The Chief Compliance Officer is responsible for identifying potential conflicts of interest concerning the proxy voting process. While this will generally be evaluated on a case-by-case basis, one or more clients' ownership of securities in a company which is the subject of a proxy vote for another client will not in itself create a conflict of interest. In cases where it is determined that a potential conflict exists, the Chief Compliance Officer will disclose the nature of the conflict to the affected client(s), disclose the specific matter under proposal to the clients, and obtain the client(s) consent before voting

In certain circumstances, to address a conflict of interest in the context of proxy voting, we may establish policies for proxy voting with respect to certain issues on which we will vote consistently. In other circumstances, where appropriate, to resolve conflicts of interest, we may consult with counsel and/or appoint an independent third party to evaluate and recommend the voting of proxies.

Recordkeeping

We will provide a copy of our proxy voting policies and procedures and information regarding any proxies actually voted on behalf of a client to any investor in such client upon the request of such investor.

Our firm maintains written records of client requests for proxy information and any written response to any (written or oral) client request for information on how our firm voted proxies on their behalf for a period of seven years.

15. Financial Information

- A. We do not require nor do we solicit prepayment of more than \$1,200 in fees per client, six months or more in advance.
- B. We are not aware of any financial condition that is reasonably likely to impair our ability to meet our contractual commitments to our clients.
- C. Pharmakon Advisers, LP has never been the subject of a bankruptcy petition.